

ORDER NO. 6369

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Michael Kubayanda, Chairman;
Ann C. Fisher, Vice Chairman;
Mark Acton;
Ashley E. Poling; and
Robert G. Taub

Periodic Reporting
(Proposal Seven)

Docket No. RM2023-2

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING (PROPOSAL SEVEN)

(Issued December 13, 2022)

I. INTRODUCTION

On December 12, 2022, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports.¹ The Petition identifies the proposed analytical changes filed in this docket as Proposal Seven. Proposal Seven proposes the accounting treatment for the forgiveness of the Postal Service's retirement

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), December 12, 2022 (Petition).

health benefit (RHB) prefunding liabilities effected by the Postal Service Reform Act (PSRA).²

II. PROPOSAL SEVEN

Procedural history. Prior to the Commission's issuance of Order No. 6363, the subject matter of Proposal Seven was raised in multiple filings with the Commission.

First, the Postal Service filed a letter to the Commission reflecting how it intended, for accounting purposes, to treat the PSRA's removal of certain accrued but unpaid retiree health benefits.³ As detailed in Order No. 6363, the Postal Service provided its rationale as to why the accounting treatment was appropriate.⁴ Second, the Commission responded to the Postal Service's Letter endorsing most of the substance of the accounting treatment, and noting that the accounting treatment did not require a rulemaking to change an accepted analytical principle pursuant to 39 CFR Part 3050.⁵ Third, a group of mailers filed a letter with the Commission asking for reconsideration of the Commission's endorsement of the Postal Service's proposed accounting treatment, and requesting the Commission evaluate the Postal Service's proposed accounting

² Petition, Proposal Seven at 1. See Docket No. RM2023-1, Order Granting Petition, in Part, for Reconsideration, December 9, 2022, at 1-2 (Order No. 6363).

³ Letter to Erica A. Barker, Secretary and Chief Administrative Officer, August 12, 2022 (Postal Service Letter), available at <https://www.prc.gov/docs/122/122469/Ltr%20re%20PSRA%20Effects%20ACR%20CRA.pdf>.

⁴ Order No. 6363 at 3. The Postal Service also noted that current year normal cost and amortization payments, as a result of the PSRA, would be treated consistently between the General Ledger and the Cost and Revenue Analysis (CRA). *Id.*

⁵ Letter from Erica A. Barker, Secretary and Chief Administrative Officer to Richard T. Cooper, Managing Counsel, Corporate and Postal Business Law, October 7, 2022, available at <https://www.prc.gov/docs/123/123096/Response%20Letter.pdf>. The Commission noted that the statutory change represented a unique and non-recurring event, and the accounting treatment appeared reasonable, opining that incorporating the \$56.9 billion adjustment in the CRA would create nonsensical results and potentially interfere with the regulatory purposes of the CRA. Order No. 6363 at 4.

treatment pursuant to 39 CFR Part 3050.⁶ Fourth, the Greeting Card Association (GCA), one of the 13 mailer organizations that was a signatory to the Mailers' Letter, also filed a petition with the Commission to initiate a rulemaking.⁷ Fifth, the Postal Service responded in opposition to the Petition.⁸ Sixth, a significant portion of the signatories to the Mailers' Letter filed a reply reiterating its position.⁹

The Commission ultimately issued Order No. 6363, granting, in part, the relief sought in the Mailers' Letter and Reconsideration Petition. Order No. 6363. The Commission withdrew its prior letter endorsing the proposed accounting treatment, because its acceptance of the Postal Service's proposed accounting treatment was based upon the expectation that the "gain" would not be treated as a revenue or cost. *Id.* at 7. However, in the Postal Service's submission of its FY 2022 Form 10-K report, trial balance, and statement of revenue and expenses, the \$56.9 billion adjustment is treated as a non-cash benefit to net income, and included within Cost Segment 18. *Id.* at 7-8. The Commission noted that in its most recent Annual Compliance Determination, other accrued costs identified in Cost Segment 18 were treated as institutional costs, and therefore the accepted methodology was to treat Cost Segment 18 costs as institutional costs. *Id.* at 8-9. The Commission further noted that without a change in analytical principle, the Commission could not endorse the Postal Service's

⁶ Letter to Erica A Barker, Secretary and Chief Administrative Officer, October 13, 2022, styled Motion for Reconsideration of Response to the Postal Service's Proposed Changes to Accepted Analytical Principles (Mailers' Letter), available at https://www.prc.gov/docs/123/123145/Motion%20for%20Reconsideration_PropChange_.pdf.

⁷ Docket No. RM2023-1, Petition for Reconsideration and Initiation of Proceeding, November 4, 2022 (Reconsideration Petition). The Petition incorporated arguments from the Mailers' Letter. Petition, Proposal Seven at 2-3.

⁸ Docket No. RM2023-1, Response of the United States Postal Service in Opposition to GCA Petition for Reconsideration and Initiation of Proceeding, November 10, 2022. The Postal Service responded to the Mailers' Letter noting that procedurally a 39 CFR part 3050 proceeding is not required where the Commission was interpreting its own regulations, and substantively that its proposed accounting treatment was reasonable and supported. *Id.* at 6-9.

⁹ Docket No. RM2023-1, Reply of Mailer Associations to Response of the United States Postal Service in Opposition to GCA Petition for Reconsideration and Initiation of Proceeding, November 21, 2022.

proposed accounting treatment. *Id.* at 9. The Commission directed the Postal Service, should it wish to proceed with its plans to exclude the PSRA-forgiven defaulted accruals, it must file a petition seeking to change an accepted analytical principle pursuant to 39 CFR 3050.11. *Id.* at 10-11.

The Commission also explained in Order No. 6363 that the arguments in the Mailers' Letter concerning the Postal Service's proposed accounting treatment of the repealed amortization and normal cost payments were in line with accepted analytical principles.¹⁰

Background. Proposal Seven is a proposal to segregate the reversal of the PSRA forgiveness of RHB prefunding payments (that were not made) between September 2012 and September 2021 from the Postal Service's other FY 2022 accounting costs that flow into its Annual Compliance Review (ACR) regulatory report. Petition, Proposal Seven at 1. Proposal Seven, in other words, excludes the PSRA forgiveness of the RHB prefunding payments from institutional cost for FY 2022. *Id.*

The Postal Service notes that in the years following the passage of the Postal Accountability and Enhancement Act, and consistent with generally accepted accounting principles, it accrued expenses in each year for scheduled RHB prefunding payments that were required by law. *Id.* at 4. The Postal Service contends that such treatment was rational (as in those years it was treated as any other expenses for that year). *Id.* The Postal Service, however, differentiates this steady series of annual prefunding required payments from the "sudden and unprecedented occurrence of a one-time reversal of a *decade's* worth of unpaid prefunding expenses from prior years." *Id.* (emphasis in original).

The Postal Service notes the broad agreement among all parties as to what would result if it were to treat the PSRA forgiveness of the RHB payments as an offset

¹⁰ *Id.* at 10. Any deviation from the accepted analytical principle (accounting for amortization and normal cost payments that are no longer incurred), would require a petition to change an analytical principle, which the Commission invited no later than December 21, 2022, should the proponent of such a petition wish it to be considered for FY 2022. *Id.* at 11. Such a petition is outside the scope of Proposal Seven and this docket.

to institutional costs (that it would result in institutional costs for FY 2022 being a “very large negative number”). *Id.* at 5. The Postal Service reiterates how that occurrence creates regulatory issues with the appropriate share provision, and the calculation of the imputed Federal income tax. *Id.*

The Postal Service also notes the inadvertent effect (or as it characterizes, the outcome mailers seek to ensure) of nullifying the density-based rate authority calculated as part of the FY 2022 ACR process. *Id.* The Postal Service explains how nullifying the density authority due to the PSRA forgiveness of RHB prefunding payments would interfere and disrupt the regulatory rationale behind the density-based authority. *Id.* at 5-7.

The Postal Service proposes one of two methods to effect its proposal to account for the PSRA forgiven RHB prefunding payments. First, the Postal Service proposes (as its preferable approach) to “zero out” Component 203 in the Cost Segment 18 tab of the Reallocated Trial Balance by omitting the reallocation of the negative \$56,975,093,943.28 from Trial Balance account 51265.000 into Component 203. *Id.* at 8. The Postal Service contends that this would result in “total costs at the bottom of the CRA that differed by the same amount from the sum of the Total Operating Expenses, Impact of Postal Service Reform Legislation, and Interest Expense rows of the Postal Service’s Statements of Operations in its form 10-K. *Id.* Under this methodology institutional costs for FY 2022 would not be “inappropriately affect[ed]” compared to how they would be without Proposal Seven. *Id.* Second, the Postal Service proposes (as an alternative option) the reallocation of the \$56,975,093,943.28 negative expense from Trial Balance account 51265.000 to the Miscellaneous Items row in the CRA, but excluding it from the row “All Other” that identifies institutional cost. *Id.*

Overall, the Postal Service identifies the impact of Proposal Seven to exclude the “one-time massive negative RHB expense accrual triggered by the PSRA from overwhelming routine FY 2022 institutional costs...[and avoiding] the inappropriate detrimental regulatory consequences of the ‘nonsensical’ result of negative institutional costs.” *Id.* at 10.

III. NOTICE AND COMMENT

The Commission establishes Docket No. RM2023-2 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission's website at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Seven no later than December 27, 2022. Pursuant to 39 U.S.C. 505, Jennaca D. Upperman is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. RM2023-2 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), filed December 12, 2022.
2. Comments by interested persons in this proceeding are due no later than December 27, 2022.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Jennaca D. Upperman to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.
4. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Erica A. Barker
Secretary